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PERSONNEL MANAGEMENT

A REPORT TO THE THIRTY-NINTH
LEGISLATIVE ASSEMBLY

by the

Montana Legislative Council
November 1964

McKEE PRINT

To Members of the Thirty-ninth Legislative Assembly:

One of the most important programs in any large organization, whether public or private, is personnel management. Yet, although Montana state government employs eight thousand persons with an annual payroll of more than $40 million, there is no organized state program for the recruiting, examination, classification, compensation, and dismissal of state employees.

This report contains background material which will aid legislators in reaching sound decisions in the area of personnel management. Also included in this report is a discussion of the feasibility of administratively consolidating state retirement systems, and a brief comment on local retirement systems for policemen and firemen.

Respectfully submitted,

W. A. "Bill" GROFF, Chairman
Montana Legislative Council

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1963-1964

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SENATE RESOLUTION NO. 12

Introduced by Mackay, Groff

A RESOLUTION OF THE SENATE REQUESTING THAT THE LEGISLATIVE COUNCIL STUDY THE PRESENT PERSONNEL SYSTEM OF MONTANA AND PRESENT A WRITTEN REPORT OF THIS STUDY, TOGETHER WITH RECOMMENDATIONS FOR IMPROVEMENT, TO THE THIRTY-NINTH LEGISLATIVE ASSEMBLY.

WHEREAS, at the present time more than half of the fifty states have instituted a comprehensive, general personnel system for employees of state government, and

WHEREAS, only through such a personnel system can a state be assured that a uniform system of testing and determining qualifications of state employees will be carried out, and

WHEREAS, without such a system, a state does not have an organized system of recruiting persons of ability who are dedicated to public service, and

WHEREAS, without such a recruitment system there is no systematic manner in which new employees are obtained to replace those who resign or retire from the public service, and

WHEREAS, in addition to selection and recruitment, such an integrated personnel system could provide a means by which the proficiency of employees is maintained at a high level and gradually improved through additional training after employment, and

WHEREAS, Montana presently has legislation which authorizes an integrated personnel system, but this system has been inoperative since 1955 because no funds were appropriated to implement it after the first biennium.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE OF THE STATE OF MONTANA:

That the Legislative Council is directed to study the feasibility of inaugurating a comprehensive system of personnel management for state government.

BE IT FURTHER RESOLVED that the Legislative Council is directed to submit a written report of their findings to the Thirty-ninth Legislative Assembly together with recommendations and, if necessary, implementing legislation.

BE IT FURTHER RESOLVED that the secretary of state is instructed to send a copy of this resolution to the Executive Director of the Legislative Council.

HOUSE JOINT RESOLUTION NO. 17

Introduced by Holtz, Selstad, Hibbard, Dykstra, Schye and Jensen

A JOINT RESOLUTION OF THE SENATE AND HOUSE OF REPRESENTATIVES REQUESTING THAT THE LEGISLATIVE COUNCIL CONDUCT A STUDY OF THE FEASIBILITY OF ADMINISTRATIVELY CONSOLIDATING THE RETIREMENT SYSTEMS OF ALL PUBLIC EMPL0YEES IN MONTANA.

WHEREAS, at the present time there are a number of retirement systems in Montana for public employees including the Public Employees Retirement System, Highway Patrol Retirement System, Teachers' Retirement System, and separate systems for firemen and policemen, and

WHEREAS, each plan is somewhat different from the others, containing different stipulations regarding the conditions and benefits received, and

WHEREAS, on the state level alone there are three independent agencies responsible for administering retirement systems, and

WHEREAS, the legislative assembly now has under consideration a bill creating an additional retirement system for fish and game wardens, which if enacted, will be administered by an independent board, and

WHEREAS, the numerous systems make an understanding of the entire scope of the program difficult, complicated, and also result in many requests of the legislative assembly to adjust the plans to make them equitable, and

WHEREAS, it is probable that administrative consolidation of these different retirement systems would make possible a more efficient use of personnel and machines and would result in savings to the state and the persons receiving benefits under the various plans, and

WHEREAS, such administrative consolidation could be accomplished without changing the distinctive features of the various plans and without interfering with the integrity of the various retirement funds.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That the Legislative Council is hereby directed to conduct a comprehensive study of the retirement systems for public employees in Montana to determine the feasibility and desirability of administrative consolidation of the systems.

BE IT FURTHER RESOLVED, that the Legislative Council is directed to submit a written report of its findings together with recommendations for improvement to the Thirty-ninth Legislative Assembly.

BE IT FURTHER RESOLVED, that the secretary of state is instructed to send copies of this resolution to the Governor, to the Board of Administration of the Public Employees Retirement System, to the Montana Highway Patrolmen's Retirement Board, to the Teachers' Retirement Board, to the Montana State Game Wardens' Retirement Board, to the Montana Municipal League for transmittal to the municipalities which have retirement systems for firemen and policemen, and to th Executive Director of the Montana Legislative Council.

SUMMARY

Personnel Management for State Government

Government does not produce a tangible product, but rather supplies services through its employees. Montana employs about 8,000 persons with an annual payroll of more than $40 million. Excluding capital outlays, salary payments represent about eighty percent of total expenditures.

The demand today for a widening range of complex services intensifies the need for skilled public employees. As jobs have become more complex, both government and industry have increasingly turned to the principle of demonstrated merit in staffing their posts. By 1963 thirty states had established central merit systems. More than ninety percent of federal employees and about sixty-five percent of state workers are employed under merit systems.

A good personnel program should have a sound organization structure, systematic and flexible position classification, a just salary plan, a well conceived recruitment plan, a sound system of selection, comprehensive in-service training programs aimed at improving skills and morale of employees, and periodic evaluations of employee efficiency. It should insure promotions based principally on the merits of the aspirants, improve personnel skills of supervisors, and maintain morale and discipline of employees at a high level.

Montana has never had an operational personnel system. In 1921 broad authority for personnel management was delegated to the State Board of Examiners. In 1937, a bill was enacted transferring extensive personnel authority to the governor. Governor Sam C. Ford urged the repeal of this law because it placed too much power in the hands of the governor. In 1943 the controversial act was repealed, and personnel authority restored to the Board of Examiners. The Montana legislature, however, recommended a personnel system more than twenty years ago. In 1942 Griffenhagen and Associates also recommended a central personnel agency to the Governor's Committee on Reorganization and Economy.

In 1953 a Personnel Commission was established, but it became inoperative after only two years by the refusal of the Thirty-fourth and subsequent legislative assemblies to appropriate money to it. The major objections to the Commission were indecision and lack of coordination within the Commission itself, unnecessary friction between the personnel director and state agencies, provision for workload analyses and performance rating of employees by the personnel director and the provision for legislative approval of detailed compensation plans.

The State Board of Examiners possesses some general statutory authority in personnel matters including approval of changes in the number and salary of personnel. Little, if any, effective personnel control is exerted by the Board, however, and present procedures are an observance of the form and not the substance of a personnel system. The State Controller maintains a roster of state employees together with salaries, but he does not have any authority to approve or disapprove salaries.

The only agency of state government that maintains a functional division of personnel is the Highway Department. Even this Department, however, has apparently fallen short of effectively filling its manpower needs. In other large state agencies, personnel matters are handled by various means. The state exerts no concerted recruiting effort, there is no uniform classification and pay plan, policies regarding some personnel matters such as sick leave vary greatly, and there is no overall effort to establish a workable in-service training program to increase employee efficiency. The present system, or lack of system, violates practically every principle of good personnel administration.

About 465 state employees of the Department of Public Welfare, Unemployment Compensation Commission, Board of Health, Department of Mental Hygiene, and Civil Defense Agency are covered by the Joint Merit System. This system was created in 1940 in response to a 1939 amendment to the Federal Social Security Act requiring state agencies receiving certain federal funds to operate a personnel program administered by an impartial party. The System has authority for limited rule-making, recruiting, examining, maintaining registers of applicants with passing scores, certifying eligible persons to operating agencies, reviewing agency payrolls, assisting agencies with performance ratings and other personnel procedures, and handling appeals. The System does not have authority over the final selection of persons for appointment, promotion, and dismissal; preparation of job classification and compensation plans although they are "approved"; or evaluation of employee performance. Lacking authority to control in such vital areas as position classification and pay policy, the Merit System is not properly a personnel system. It has, however, performed satisfactorily within its narrow sphere for the past twenty years functioning chiefly in the area of setting standards; providing advice; and coordinating the recruiting, examining, and selecting processes of the agencies covered. It has also contributed to substantial standardization of job classifications and pay plans of the agencies covered even though final authority for these matters rests with the agencies.

Montana must recruit about 2,000 persons each year just to maintain its present level of employment, but recruiting is generally uncoordinated. It is not unusual for a half dozen agencies to accept applications from and interview the same person on the same day. A central personnel system can provide a coordinated recruiting effort aimed at two major objectives: the long-range objective of building interest in state careers, and the short-range objective of filling specific vacancies. To select employees from those recruited, "assembled" or written examinations as well as a demonstration of ability to operate office equipment can be used for clerical help. For a few professional positions, "unassembled" examinations consisting chiefly of reviewing background and formal training records can be used. After qualifications and potential performance of the respective employees are determined, state agencies can be provided with a list of qualified persons from which the agency head "hand picks" the employee he believes will perform best on the partciular job. Combined, the recruitment, examination and appointment steps greatly enhance the possibility that an employee will perform well on the job and choose government as a career.

A job classification and pay plan is a major objective of a personnel system. Job classification is the technique of measuring many diverse positions against three yardsticks: duties, qualifications, and levels of responsibility. When adequately constructed, a classification plan permits recruiting officers, payroll analysts, budgeting officers, and legislators to evaluate public employees in terms of position classes rather than individual positions scattered throughout state government. Reducing position classes to a workable number has far-reaching implications; for recruiting because the duties and qualifications for a wide range of similar positions are specified; for salary administration because salaries are tied to grade levels rather than to individual employees; for morale because there is equal pay for equal work; for career development because of the systematic relationship of one job to another providing development and promotion in sequence; and for supervision and performance ratings because an employee can be measured against a stated set of duties.

It is impossible now to determine the actual range of salaries for similar jobs in state government because position titles are not descriptive. Salary requests cannot be examined in detail, and it is not possible to compare accurately the personnel and salary expenditures of one department with those of another. With a classification and pay plan, the chief executive and budget director can examine the detail of salary requests, compare expenditures of one department with those of another, and require justification for any changes.

A classification and pay plan will not, in any sense, diminish legislative control over salary appropriations. Quite the contrary, legislative control would be enhanced by the standardization of information upon which salary requests are judged. The plan should also help prevent the improper use of surplus appropriated moneys for salaries when employees were not qualified by virtue of increased responsibility or demonstrated competence.

A good personnel system should also contribute to a reduction in employee turnover. Based upon the number of persons withdrawing from the Public Employees' Retirement System, the estimated turnover rate for state agencies is now 20.6 percent. At a cost of $500 per newly hired employee, the cost of replacing the 1,792 employees who withdrew from the Public Employees' Retirement System July 1, 1963 to June 30, 1964 would be $896,000.

A merit system would also benefit operating agencies by providing a single office where applications would be submitted, qualifications verified, previous employers contacted, job lists checked to determine vacancies, and the person directed to the departments seeking employees. While assisting department heads in securing employees, a merit system would not diminish materially agency control for employee selection. The department head need not accept one of the persons certified to him. If all were unacceptable, recruiting would continue until an acceptable person was obtained. It is illogical to charge a person with responsibility for running an agency without providing him with control over personnel. A merit system can add to present rights of non-merit system employees without unduly restricting department heads.

Although it seems to be a common belief that merit systems undermine political parties by removing patronage positions which contribute to party unity, this is not true. The argument that patronage is necessary is countered by the existence of active, vital political parties in those thirty states which now have general coverage personnel systems. Patronage, if carried to an extreme, can also develop into a rigid spoils system which detracts from the efficiency and responsiveness of the public service.

A merit system should contribute to employee morale by providing "equal pay for equal work" and the right to request a hearing before the Merit System Council if discharged. Although the findings of the Council should be advisory only, a hearing procedure should reduce the possibility of dismissal for insufficient reason. To avoid total disruption of the operation of state government and prevent widespread deterioration of employee morale, a merit system should contain a modified "grandfather clause" to prevent salary reductions for permanent employees and also provide that employees with six months or more of service may be retained in the permanent service without examination. To avoid conflicts, a merit system should apply to agencies now covered by the Joint Merit System only insofar as the new law does not conflict with federal standards. By providing additional flexibility in fitting employees to particular jobs than now exists, a merit system should insure that maximum abilities of employees are utilized to a greater degree benefiting both employer and employee.

The estimated cost of a central merit system is $85—89,000 per year. The Joint Merit System now has one staff employee for each 185 persons covered. The new system would employ about ten persons, or one staff person for each 600 to 700 employees covered. The cost per employee covered of about $12.88 as compared with a national average of $20.89 does not seem excessive. Because a personnel office would serve all departments in a manner similar to the central purchasing division of the Department of Administration, costs should be shared by departments operating in whole or in part on special funds in proportion to the service they receive. The estimated $85,000 annual cost could be appropriated to the system directly from the general fund, and provision made for reimbursement of the general fund from special funds. If this procedure were followed, about $51,000 would be supplied from special funds and $34,000 from the general fund.

After examining the disorderly manner in which state government attempts to cope with personnel management, the Council concludes that a centralized personnel system should be initiated. Careful consideration of the alternative means of implementing this recommendation led to the conclusion that the most feasible method is extension of the present Joint Merit System. The System is headed by a trained personnel officer, has had twenty years of experience in personnel management, and thus provides a means by which the new law can function at peak efficiency. The Council believes that the cost of a merit system is modest compared with the benefits and ultimate savings to be realized.

Administrative Consolidation of State Retirement Systems

The State of Montana maintains three separate agencies to administer state retirement systems. This study was aimed at determining the feasibility and desirability of administrative consolidation of these three agencies retaining the distinctive features of the various plans and integrity of the various retirement funds. The possibility of changing contribution rates or benefits paid, and other things affecting the integrity of the various retirement funds were not considered.

The Public Employees' Retirement System (PERS) was created in 1945 to "effect economy and efficiency in the public service by providing a means whereby employees who become superannuated or otherwise incapacitated may, without hardship or prejudice, be replaced by more capable employees. . ." Teachers, highway patrolmen, and game wardens are under separate systems. With these exceptions, the system covers all state employees except elective officers and persons appointed directly by the governor who elect not to belong, and members of boards and commissions paid on a per diem basis. Employees of cities, towns, counties, school districts, and other public agencies may elect to participate under a contractual agreement. The System is administered by a five member board appointed by the Governor. Three members must be public employees and members of the system; the other two members are "at large."

The Teachers' Retirement System was created in 1915 and covers all public, elementary and secondary teachers in addition to teaching staffs at University units or at state institutions. The System is administered by a five member board—four members appointed by the Governor, and the Superintendent of Public Instruction. Appointive members include two from the teaching profession and two public members.

The Highway Patrolmen's Retirement System was created in 1945. The System is administered by a board consisting of the chairman of the Highway Patrol Board, the supervisor of the patrol, and three members of the Highway Patrolmen's Association. The State Game Warden's Retirement System was created in 1963 to cover wardens and supervisory personnel whose salary is paid from Montana fish and game funds. The Wardens' system is administered by the PERS board.

Having been established for the same basic purpose, it is not surprising that administrative agencies of the Montana retirement systems are very similar. All boards are responsible for administration of their respective laws, and all are required to have "periodic" actuarial investigations. A final determination of retirement or disability benefits is made by each board. Each board is charged with the responsibility for investment of retirement funds.

After examining these systems, it was concluded that they have no marked differences from an administrative point of view; in fact, they are remarkably similar. There is no essential difference in record keeping and accounting methods. The program for each system consists of three identical fundamental phases—collecting and recording contributions, calculating refunds or retirements to make appropriate payments, and investing the assets of the systems.

If the separate administrative agencies did not exist and the state were considering the establishment of four retirement systems, there certainly would be no valid reasons for creating separate administrative agencies. In a number of states separate retirement systems are administered by a single agency. If administrative consolidation has proved successful in other states, there is no reason to believe it would not work also in Montana.

Because of the possibility of widespread misunderstanding of the goals of administrative consolidation, and of the difficulty of conclusively proving substantial savings or improved service, the Council does not recommend any action at this time. Changing conditions, however, might well bring about more persuasive reasons or a more receptive attitude than now exists. Examples of such conditions are increases in the number of members of the systems, advances in electronic data processing, and the inauguration of a program of total reorganization of the executive branch of government.

Local Retirement Systems for Policemen and Firemen

Although major efforts were directed toward determining the feasibility of administratively combining state retirement systems, the Council also reviewed local retirement systems for policemen and firemen. During this review, the Council became concerned about the financial condition of these funds.

Because employer contributions for these systems are derived chiefly from property taxes, the condition of the funds has a direct bearing on local property taxes. Moreover, if the funds are not actuarily sound now, the municipalities may be incurring a steadily increasing financial obligation. In the future cities may be faced with the equally unpleasant alternatives of large increases in local property taxes, or reductions in benefits paid.

One major problem of the local retirement systems is inherent in the systems themselves. Contributions and benefits are computed on averages. In systems of small membership, however, averages have limited application and unusual circumstances can place an almost unbearable burden on a small retirement fund. A second major problem appears to be the provisions for contributions to the systems. In each case, the employee contribution is fixed at three percent of monthly compensation, although the two state systems which allow early retirement fix the employee contribution at five and seven percent. Moreover, the employer contribution is based partially upon property valuations—only indirectly related to salary or benefits. A third major problem is in part a result of the two already mentioned. Due to the small memberships of the systems and contribution provisions, some of the funds never become large enough to realize substantial interest earnings—an important source of revenue for most retirement systems.

After surveying the condition of local retirement funds, it is apparent that some are not financially sound. It is also apparent that some municipalities may soon face the unpleasant decision of increasing taxes or reducing retirement benefits. The Council concludes that additional information is needed before sound recommendations can be made for improving these systems, and that any adjustments must be equitable to both the local taxpayers and members of the systems. The Council recommends that the 1965 legislature appropriate $2,000 for an actuarial survey of local retirement systems. Only after this information is available can reasonable adjustments be made to improve the systems.

CHAPTER I

Personnel Management For State Government

Senate Resolution No. 12 of the 1963 Legislative Assembly directed the Legislative Council "to study the feasibility of inaugurating a comprehensive system of personnel management for state government," and to "submit a written report of their findings to the Thirty-ninth Legislative Assembly together with recommendations and, if necessary, implementing legislation." The Council wishes to thank Mr. Melvin P. Martinson, Supervisor of the Joint Merit System; Mr. Jess C. Fletcher, Employment Service Director of the Unemployment Compensation Commission; and Mr. V. A. Burr, Director of Public Assistance of the Public Welfare Department for furnishing the Council's personnel subcommittee with information on the operation of the Joint Merit System. Mr. John F. Sasek, Secretary of the Public Employees' Retirement System; Mr. J. Hugh McKinny, Executive Secretary of the Teachers' Retirement System; and Mr. Alex B. Stephenson, Supervisor of the Montana Highway Patrol assisted the subcommittee by providing detailed information on the operation of the various state retirement systems. The Council is grateful to Mr. James B. Preston of International Business Machines for preparing an analysis of the accounting systems of the two major retirement systems; and to Mr. James H. Egan, Montana Assistant Vice President of Mountain States Telephone Company, for meeting with the subcommittee to describe the personnel program of that company.

We live in an age when the demand for a widening range of complex services intensifies the need for skilled public employees who possess basic qualifications for the jobs they hold. As jobs have become more complex, both private industry and government have become increasingly aware of the need to select and retain competent employees. To fill this need, governments are turning increasingly to the principle of demonstrated merit in staffing their posts. Today more than 90 percent of federal employees and about 65 percent of state workers are employed under merit systems.[1]

In 1963 Utah became the thirtieth state to establish a statewide merit system. Ten municipalities in New Jersey voted to come under the state merit system, five counties in Oregon voted to place employees under the merit system, and Pennsylvania consolidated six separate merit systems into a single system and also extended merit coverage.[2]

Government does not produce a tangible product, but rather provides services through public employees. The supplies purchased, buildings constructed, and equipment used are all supplementary to the personnel involved. The State of Montana now employs about 8,000 persons with an annual payroll of more than $40 million. Excluding capital outlays, the expenditure for salaries and wages in Montana represents about 80 percent of the costs of state government. Although the state has a regular procedure for purchasing supplies which have proved to be acceptable either after testing or actual use, there is little quality control over the selection and testing of state employees. Faulty supplies can be replaced almost immediately, but unqualified public employees may be a burden on taxpayers for many years.

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[1] Oakley Gordon, Reed Richardson, and J. D. Williams, *Personnel Management in Utah State Government*, (1962) p. 11. Cited hereafter as *Management*.

[2] The Council of State Governments, *The Book of the States. 1963-64*, (1964) p. 174.

If it is logical that the state require minimum standards, and often a testing procedure, before spending $8,800 annually for floor wax for state buildings, it is illogical to employ 8,000 persons with virtually no systematic quality control. Considering the large expenditures for salaries and wages, it is evident that if any single cost to government requires quality control, it is the employment of personnel.

Personnel Systems

Although the essentials of a good personnel program can never be reduced to hard fast rules, some of the basic principles accepted by students of personnel administration are as follows:

1. *Development of a sound organization structure for carrying out the personnel program, one in which the responsibiilties of all those participating in the program are clearly defined.*
2. *Systematic and flexible position classification and the establishment of a just salary plan, taking into account the strong competition which the private sector offers.*
3. *A well-conceived recruitment plan and the attraction of good candidates by means of imaginative and aggressive recruiting techniques.*
4. *A sound system of selection, assuring the appointment of only the most qualified candidates and their placement in the jobs for which they are best fitted.*
5. *Comprehensive in-service training programs, aimed at improving skills of employees, raising their morale, and preparing them for promotion.*
6. *A satisfactory plan for the periodic evaluation of the efficiency of employees to improve their performance and identify the most competent ones.*
7. *A plan of promotions based principally on the merits of the aspirants, with the object of establishing a career system by means of which good people are brought into the service, and in accordance with their performance are moved up the line until they reach the highest ranking positions.*
8. *Constant effort to improve the human relations skills of supervisors and in general to assure proper attention to human relations factors.*
9. *A complete program for maintaining the morale and discipline of the employees at a high level.*[3]

These essentials may, of course, be modified to fit a particular situation, and the operation of different personnel systems may vary greatly.

History of Personnel Legislation in Montana

Apparently the first legislative attempt to centralize personnel matters was the enactment of Chapter 108, Laws of 1921 which gave the State Board of Examiners the power to "fix and designate the number, compensation, term and tenure of office of all assistants, clerks and stenographers for all civil executive state offices, boards, commissions or departments." The Board was also given the power to discharge any such assistants. The various departments, however, retained the right to appoint their own assistants at rates of compensation fixed by the Board.

[3] Felix A. Nigro, *Public Personnel Administration,* (1959) p. 37.

No major changes occurred until 1937 when these laws were repealed and Chapter 5, Laws of 1937 enacted. The new law provided that "every civil executive state office, board, commission, bureau, department or authority of any kind appointed by the governor shall not appoint any assistant, deputy, agent . . . nor . . . fix or designate the number, compensation, term of tenure of such assistant . . . without first having the written approval of the governor." The Governor was also given the power to remove employees, except elective officials, from office when he deemed it "for the best interest of the service and of the state."

Whatever the motives of those who secured the enactment of this legislation, it incorporated all of the undesirable features of the most extreme kind of a spoils system and presented a perfect opportunity for a chief executive to set up a political machine of state employees. The law became popularly known as the "Hitler Bill."

In his message to the 1941 Legislative Assembly, Governor Sam C. Ford said: "Chapter 5, Laws of the Twenty-fifth Assembly, known as the Hitler Bill, empowers the governor to hire and discharge all state employees, except those in elective offices. In my opinion this law is dangerous, in that it places too much power in the hands of one man. I strongly urge its repeal and the enactment of suitable laws providing for the appointment of employees." In 1943 Governor Ford's recommendation was adopted when the legislature enacted Chapter 30, Laws of 1943, virtually restoring the 1921 power to the Board of Examiners to designate the number and compensation of employees. The broad powers granted to the Governor under the 1937 law were repealed. Except for the period between 1937 and 1943 when the "Hitler Bill" was in effect, the Board of Examiners has had general supervisory power over state personnel since 1921.

The need for an improved personnel system, however, has long been recognized. More than twenty years ago, a joint committee of the Montana legislature, after studying personnel practices, concluded: "Under such conditions the state cannot hope to operate efficiently. A personnel system should be built up, based upon a graded scale with salary and promotion based upon efficiency and experience."[4]

The following year Griffenhagen and Associates reported to the Governor's Committee on Reorganization and Economy as folows:

> ***Need for a central personnel agency: It is a matter of good business to have the personnel affairs of any large employer attended to by a specialized central agency . . . Highest values are secured where uniform policies are effectively applied in such ways as to insure rates of compensation and working conditions that encourage the entrance to the service of the persons best fitted for the work and their retention in the service and encouragement to devote their best efforts to their work. By such means, and by such means only, can a large employer insure getting anywhere near full value for his money expended for personal services.***
>
> ***It is, in fact, vastly more important that good business principles and procedures be applied to personnel transactions than . . . elsewhere. Two-thirds or more of the expenditures of any large government organization are for personal services. The opportunities for waste, and even fraud, are greater rather than less, and the available safeguards are harder to apply.***
>
> ***Furthermore, practically all other expenditures are dependent for their effectiveness on the quality of personal services rendered. Most institutions and offices are maintained primarily as working places for the ren-***

[4] Report of Joint Committee on State Government Organizations, *House Journal of the Twenty-seventh Legislative Assembly,* (1941) p. 400.

dering of personal services, and supplies and materials are purchased principally for use in the rendering of such services. All these derive their whole value from the effectiveness with which they are used.

It should require no proof that uniform policies and procedures of general application to all branches are desirable in any large enterprise, in matters of general administration. This is particularly true in relation to matters of personnel. If employees in one unit are paid at higher rates than like employees in another,.. the employees of the second unit would be justified in a feeling of unfair discrimination against them. Such conditions have an undesirable effect on the morale of the workers. Furthermore, a central personnel agency can serve all the operating agencies at little more expense than that required for a personnel agency, of equal standard, for one of the large departments.[5]

In 1953 the Commission on Reorganization of State Government, reported similar findings and recommended a law establishing a personnel system for the state.

The Montana Personnel Commission

A Personnel Commission was established by law in 1953. This Commission was inactivated in 1955, after only two years of operation, by the refusal of the Thirty-fourth and subsequent Legislative Assemblies to appropriate money to it. The reasons for legislative disapproval seem numerous. The report of the House Select Committee on the Personnel Commission reported some of these reasons to the legislature on February 13, 1955:

Your committee finds . . . that the members of the commission each had a different opinion as to how to fulfill the task for which they were appointed. The result was indecision and an incomplete program by the time the 1955 legislature met. The failure of the commission to accomplish its assignment as prescribed by law, and the lack of coordination within the commission itself, can be blamed in part on the lack of personnel experience of its members.

The Committee also found that unwise and unpopular decisions by the director contributed to the unpopularity of the program by unnecessarily creating friction between the personnel office and state agencies. The director's personality was probably a major reason why the Personnel Commission failed. Several members of the House met with the Governor during the 1955 session and offered to appropriate money if the director were removed. Upon the refusal of the Governor to remove the director the legislature refused to appropriate funds.

The law also met opposition because it extended the activities of the Commission beyond the scope of ordinary personnel administration by providing for workload analyses and employee performance ratings. The act was also criticized because it required legislative approval of the detailed compensation plan. The reasons given for this latter criticism were: (1) that this is essentially an administrative duty and would burden the legislature with excessive detail, (2) there is the certainty of a time lag which prevents salaries from being brought up to date periodically, and (3) it involves technical, detailed analyses that the legislature is ill-equipped to perform.

Thus, the major objections to the Personnel Commission can be summarized as follows:

(1) Indecision and lack of coordination within the Commission.

(2) Unnecessary friction between the personnel director and state agencies.

[5] Griffenhagen and Associates, *Personnel Administration*, Report No. 54, (1942) p. 7, ff.

(3) Provision for workload analyses and performance rating of employees by the personnel director.

(4) Provision for legislative approval of detailed compensation plan.

Present Personnel Practices

BOARD OF EXAMINERS

As mentioned earlier, the State Board of Examiners possesses some general statutory authority in personnel matters. The Board does go through the motions of reviewing and approving requests from department heads for changes in the number and salary of personnel. The Executive Clerk of the Board estimates that from forty to fifty such requests are received and processed by the Board at each meeting. Little, if any, staff research is performed in advance of such meetings. Inspection, approval, or disapproval of these forty to fifty requests usually takes about fifteen to thirty minutes of the Board's time. A formal motion is made to approve all requests, unless there are exceptions, and the Executive Clerk is directed to indicate approval by affixing facsimile signatures of the members. The Board also maintains a card file on state employees and informs the Controller of any changes in the number of employees or salaries. Regarding the Board's personnel functions, in 1960 the Council observed:

> ***The council considered recommending that the board of examiners be divested of their statutory power to "fix and designate the number, compensation, term and tenure of office of all assistants, deputies, agents, attorneys, administrators, engineers, experts, clerks, accountants, stenographers and executive attaches of all civil executive state offices" and allowing each department head to assume responsibility for the salaries of personnel in his department.***
>
> ***The Board seldom refuses a request to increase personnel or salaries and apparently does not have the facilities to adequately investigate such requests. Even though the present system is an observance of the form and not the substance of personnel control, the council recommends that it be maintained until an effective personnel system is activated.***[6]

OTHER PERSONNEL FUNCTIONS

A roster of state employees, together with salaries is maintained in the State Controller's office. The Controller, however, does not have any authority to approve or disapprove the salaries. His function is merely to keep information on salaries current for payroll purposes.

While Montana law specifies that each employee shall be granted annual leave at the rate of one and one-quarter days per month of service after a period of one year, in the case of sick leave the statutes are vague. The only stipulation contained in law is that absence from employment for reasons of illness cannot be charged as annual leave. Apparently, department heads have complete discretion regarding sick leave for employees.

The only agency of state government that maintains a functional division of personnel is the Highway Department. The personnel division of the Highway Department consists of a personnel officer, one secretary, and a part time clerk. Recruiting responsibility is divided between the personnel division and operating divisions; the personnel division maintains records including applications, vacancy lists, and performance ratings; and the personnel division is responsible for supervision of in-service training and safety programs. Written examinations for clerical applicants are administered for the division by the Joint Merit System or Montana Employment Service. Professional positions usually are filled without written examination.

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[6] Montana Legislative Council, *The Organization and Administration of State Government*, Report No. 3, (1960) p. 35.

In other large state agencies, personnel matters are handled by various means. The assistant director of the Fish and Game Department has primary responsibility for personnel. Much responsibility for recruiting and employment, however, is delegated to division heads with final approval reserved to the Director or Commission. One division, enforcement, administers examinations periodically through Montana State Employment offices.

Personnel responsibility in the Department of Public Welfare is fragmented. The Department has a personnel officer for maintaining records and handling routine matters, but the director actually performs many personnel functions. There is also an advisory personnel committee composed of division heads and other employees. A full time staff development officer is responsible for in-service training.

The State Controller functions as his own personnel officer, and division heads are personnel officers in the Board of Equalization although final decisions on personnel are resolved by the Board itself. In other departments of state government, personnel functions are usually performed by the head of the department although the actual practices may vary a great deal. In the Department of Public Instruction, for example, one person is responsible for secretarial and clerical employees and a second person responsible for supervisory personnel.

The state presently exerts no concerted recruiting effort, there is no uniform classification and pay plan, policies regarding some personnel matters such as sick leave vary greatly, and no overall effort is exerted to establish a workable in-service training program which would increase employee efficiency. In short, the present system, or lack of system, violates practically every principle of good personnel administration. Commenting on this situation, one student of public administration stated:

> ***Thus if the present dismal situation of public personnel administration in Montana is to be improved, action should, and must be taken by the state government . . . Extension of the merit system would . . . at least extend the use of competitive examination as a basis for entrance into state service, and it would reduce the outrageous fragmentation of recruiting for government jobs that now exists in Montana.***[7]

The Joint Merit System

The Merit System was created in 1940 by the Department of Public Welfare, Unemployment Compensation Commission, and Board of Health through the adoption of concurrent rules, in response to a 1939 amendment to the federal social security act requiring state agencies receiving certain federal funds to operate a personnel program administered by an impartial party. Coverage was extended in 1948 to the Department of Mental Hygiene, and to the Civil Defense Agency in 1960.

The Merit Council consists of three members appointed by the Governor for six year terms arranged so that the term of one member expires every two years. Authority vested in the Council includes limited rule-making, recruiting, examining, maintaining registers of applicants with passing scores, certifying eligible persons to operating agencies, reviewing agency payrolls, assisting agencies with performance ratings and other personnel procedures, handling appeals, and submitting reports on the System. The Council does not have authority over: (1) the final selection of persons for appointment, promotion, and dismissal; (2) preparation of job classification and compensation plans although they are "approved" by the Council; or (3) evaluation of employee performance.

All five agencies submit their classification and pay plans to the Council for review and recommendations before adoption. Federal standards require that increases in salaries be based upon quality and length of service, and that compensation be comparable with that paid for similar work by other state agencies. Pay plans existing under the Merit System, therefore, do not necessarily provide exactly equal pay for similar positions in the agencies covered, but they do result in more uniformity of pay than exists in other state agencies.

[7] Gary Cowan, *The Montana Merit System*, (Unpublished thesis, Montana State University library), 1957 pp. 164-65.

The Merit System now covers 465 state employees — less than six percent of the total number. Costs of operating the System are apportioned among the agencies in proportion to the number of employees covered. In the fiscal year ended June 30, 1964, the $28,000 cost of the System was apportioned as follows: Unemployment Compensation Commission, 35 percent; Department of Public Welfare, 33 percent; State Board of Health. 27 percent; Department of Mental Hygiene, 3 percent; and Civil Defense Agency, 2 percent.

It is readily apparent that the Merit System, as it now exists, is not properly a "personnel system" because of the lack of any real authority to control in such vital areas as position classification and pay policy. The System has, however, performed satisfactorily within its narrow sphere for the past twenty years functioning chiefly in the area of setting standards; providing advice; and coordinating the recruiting, examining, and selecting processes of the agencies covered. It has also standardized job classifications and pay plans of the agencies covered even though final authority for these matters rests with the agencies.

Operation and Effects of a Central Personnel System

EMPLOYEE SELECTION

When properly accomplished, filling a vacancy involves three important steps: attraction of qualified applicants, elimination of unqualified candidates through examination, and appointment of one of the better qualified candidates. Only when these three steps are efficiently carried out can the state be assured of selecting the best possible employees.

The State of Montana must recruit about 2,000 persons each year just to maintain its present level of employment. Recruiting is generally uncoordinated. Each agency independently establishes initial contact with prospective employees, obtains information about past employment and conducts interviews. It is not unusual for a half dozen agencies to accept applications from, and interview the same person on the same day.

A central personnel system can provide a coordinated recruiting effort aimed at two major objectives: the long-range objective of building interest in state government careers, and the short-range objective of finding qualified individuals for specific vacancies. While the long-range objective must be the result of continuous efforts over a period of time, recruiting techniques can be improved to attain the short - range objective almost immediately. The elimination of duplicate effort will reduce the cost of hiring: and an aggressive statewide, and in some instances nationwide, recruiting program will make available larger numbers of qualified applicants from which to choose.

The second important step is the selection of qualified candidates. A recent study put forth the following central premises about selection:

1. ***What we don't know about applicants WILL hurt us. The more relevant information that can be gathered about the applicant, the better the chance for a good adjustment of man to job.***
2. ***This information should be gathered by all pertinent and feasible methods of examination.***
3. ***Examination devices should be carefully evaluated in terms of the job openings and of the applicants available. In some situations certain methods of examination are useless. In some, one device produces information so similar to that of another that the use of both is redundant.***
4. ***Final selection should be by the operating agency where the vacancy exists, although agency officials should abide by statewide standards. Agency officials should also have the predominant voice in defining job duties and the qualifications they are looking for, and should have a contributing voice in the choice of weighting of examinations.***[8]

[8] *Management*, p. 59.

Examinations can vary according to position. For clerical help, an "assembled" or written examination as well as a demonstration of ability to operate office equipment can be required. For some professional positions, an "unassembled" examination can be given. This consists chiefly of reviewing background and formal training records, and an interview. For most professional positions, written examinations and a rating of training and experience are used to rank applicants.

The last step in filling a vacancy is appointment. After the qualifications and potential performance of prospective employees are determined by the personnel office, they are certified as qualified to the operating agency. Then, from several competent candidates the agency head "hand picks" the employee who, in his opinion, will perform best on the particular job.

Combined, these three steps greatly enhance the possibility that the employee will perform well on the job and choose government as a career.

JOB CLASSIFICATIONS AND SALARY

Job classification is the technique of measuring many diverse positions against three yardsticks: duties, qualifications, and levels of responsibility.[9] When adequately constructed, a job classification plan permits recruiting officers, payroll analysts, budgeting officers, and legislators to evaluate public employment in terms of classes of positions rather than individual positions scattered throughout state government.

The need for a classification plan for state employees was dramatically revealed by a salary survey conducted by the Budget Director in 1960 and 1961. Some examples from this survey are shown below.

Title	Salary Range
Administrative Assistant	$380 - 535
Supervisor	265 - 775
Chief	367 - 736
Assistant Chief	430 - 600
Accountant	216 - 541
Research Assistant	430 - 600
Auditor	300 - 675
Inspector	250 - 675
Clerk Typist	150 - 385

The results of the survey were, of course, meaningless, simply because the job titles are meaningless. The survey did illustrate the futility of attempting to draw intelligent conclusions on the state's personnel policies from available data.

Reducing position classes to a workable number has far-reaching implications; for recruiting because the duties and qualifications for a wide range of similar positions are specified; for salary administration because salaries are tied to grade levels rather than to individual employees; for morale because there is equal pay for equal work; for career development because of the systematic relationship of one job to another providing development and promotion in sequence; and for supervision and performance rating because an employee can be measured against a stated set of duties.[10]

[9] *Ibid.*, p. 71.

[10] *Ibid.*

After jobs have been accurately described and classified, the foundation exists upon which an equitable pay plan may be built. A major goal of a personnel system is to establish a pay plan which: (1) provides equal pay for equal work, (2) is geared closely enough to pay in private industry to prevent the loss of good employees, and (3) which prevents excessive salaries.

It is impossible to determine the actual range of salaries for similar jobs in state government now because position titles are not descriptive. Salary requests cannot, therefore, be examined in detail. Nor is it possible to compare accurately the personnel and salary expenditures of one department with those of another. With a classification and pay plan, the Governor and Budget Director can examine the detail of salary requests, compare salary expenditures of one department with those of another, and require justification for new positions or changes in existing positions.

A classification and pay plan will not, in any sense, diminish legislative control over salary appropriations. Quite the contrary, legislative control over salary appropriations would be enhanced by the standardization of information upon which salary requests are judged. While an appropriation for operation includes an agreed upon amount for salaries, legislators have no assurance that administrators will not use excess moneys for inordinate salary increases. A classification and compensation plan would prevent the improper use of surplus appropriated moneys for salaries when employees involved were not qualified by virtue of increased responsibilities or demonstrated competence.

The classification and pay plan would also insure that promotions are based upon merit. Although the pay plan would provide for salary increments within the same grade for increased efficiency and longevity, a personnel system would require that employees demonstrate additional ability for promotion to a higher salary grade.

After examining budgeting practices of a state similar to Montana, a management consulting firm stated:

> ***Since, however, personnel costs are by far the largest object of current expenditures for most governmental agencies, there is a need for special attention to these costs.***
>
> ***There needs to be established a system of authorized positions by title and salary grade. Personnel services budgets should be arrived at by simply adding the rates of authorized positions, adjusted, at least in large departments, by a factor to reflect vacancies. Any deviations from the established staffing pattern during the fiscal period should require review and approval of the Budget Office. The practice of many agencies of using savings from vacant positions to add new positions at the end of a budget period defeats much of the purpose of budget review.***
>
> ***For personnel control to be properly exercised, position classification and pay plans currently maintained are practical necessities. The Budget Office's concern with position control would not infringe on responsibilities of the central personnel office. The latter office should be clearly responsible for classifying positions and other personnel matters relating to employee recruitment and evaluation.***[11]

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[11] Public Administration Service, *Report on Implementation of the 1963 Budget Act State of South Dakota,* (1964) p. 47.

EMPLOYEE TURNOVER

A good personnel system should also contribute to a reduction in employee turnover. If able employees are selected, high morale maintained, and just compensation provided, employees will be encouraged to continue their employment.

Numerous studies have been conducted by private industry to measure turnover costs. A private consulting firm examined the economics of a personnel system in 1956 and concluded that the direct investment necessary to recruit, select, and train a newly hired clerk, factory worker, or sales clerk was about $500. At higher levels such as engineers, technical office personnel, salesmen, supervisors, management trainees and similar positions, the investment ranged between $5,000 and $15,000.[12]

An illustration of the high costs of employee turnover was given by the personnel director for the city and county of Denver as follows:

> ***. . . A few years ago the American Management Association surveyed 136 companies and arrived at an average estimated cost of replacing a salesman at $6,684. In the aircraft industry the cost of replacing an assembly worker was $1,000 while the cost of the replacement of a dictating machine operator for an insurance company was $700. During one year of operation, an aircraft company hired 193 engineers and scientists, and lost 139 —a net gain of 54. The recruiting cost alone was $907,000.***[13]

Unfortunately, good information on the turnover rate of state of Montana employees is not available. However, based upon the number of persons withdrawing from the Public Employees' Retirement System July 1, 1963 to June 30, 1964, the estimated turnover rate for state agencies is 20.6 percent.[14] At a cost of $500 per newly hired employee, the cost of replacing the 1,792 employees who withdrew from the Public Employees' Retirement System July 1, 1963 to June 30, 1964 would be $896,000.

OPERATING AGENCIES

A centralized system would benefit the operating agencies of state government. Each agency must now maintain records of applications and interviews, uncertain of when a vacancy will occur, or whether the person will be available when a vacancy does occur. Under a central personnel system, an application would be submitted to one office, qualifications verified, previous employers contacted, job lists checked to determine vacancies, and the person directed to departments seeking employees. The agency head would be relieved of the onerous chore of determining the person's background and qualifications and conducting preliminary interviews.

Efforts by individual departments to attain good personnel management practices vary; however, it is significant that the one agency which employs a full-time personnel officer and maintains a personnel division—the Highway Commission, has apparently fallen short of effectively filling its manpower needs. A recent management study found that: (1) A high percentage (43 percent) of the managerial personnel of the Department will reach retirement within nine years, (2) In many instances the logical successors to major managerial person-

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[12] Industrial Psychology Inc., *Personnel Costs—The Difference Between Profit and Loss?,* (1956) no pagination.

[13] F. Arnold McDermott, "Savings in Personnel Costs," *Minnesota Municipalities,* (November, 1961) p. 321.

[14] Computed by dividing membership of 8,715 on June 30, 1964 into 1,792 persons who withdrew membership July 1, 1963 to June 30, 1964.

nel are almost as old as or older than their superiors, (3) A relatively small number of personnel are evaluated by their superiors as possessing the necessary ability to develop into higher-level managers, and (4) Montana ranked fourth from the bottom among state highway departments in the percentage of graduate civil engineers among total classified engineers employed in 1960. (The percentage of graduate civil engineers employed in this category by Montana was 14.2 percent as compared to the national average of 44.5 percent.) Major recommendations of the report were: (1) to maintain a continuous analysis of the Department's managerial and supervisory personnel needs—and of personnel available to fulfill these needs, (2) to plan and conduct a systematic recruiting program, and (3) to develop a performance appraisal system designed to improve managerial and supervisory performance.[15]

While assisting the department head in securing employees, a personnel system would not materially diminish agency control over employee selection. The department head need not accept one of the persons certified to him by the personnel department. If all were unacceptable, recruiting by the personnel office would continue until an acceptable person were obtained. Furthermore, if a department head so desired, he could recruit his own employees—the only requirement being that these persons meet the prescribed standards.

Although the Council concludes that public employees should be provided protection from capricious, arbitrary dismissal, every attempt should be made to retain control over employees in the department heads. The Council believes that it is illogical to charge a person with responsibility for running an agency of state government without providing him with control over personnel. To protect the rights of employees without infringing upon the proper authority of department heads, a Merit System should provide that an employee may request a hearing before the Merit System Council if he feels his status has been changed without justification. After hearing the appeal, the Council should submit a written finding to the department head; but the final decision to retain or dismiss the employee should rest with his immediate supervisor. This would add to present rights of non-merit system employees without unduly restricting department heads.

EFFECT ON POLITICAL PARTIES

It is a common belief that merit systems tend to undermine political parties by removing patronage positions which contribute to party unity. A recent Utah study stated:

> ***The State of California is a "living rebuttal" to the argument that a statewide merit system destroys political parties. A no more healthy two-party system than California's can be found anywhere in the country. And California is a state with a far-flung merit system reaching down to most city and county jobs.***[16]

To determine the effect of a merit system on political parties, the Utah study conducted a survey of state personnel directors and political leaders. State party chairmen, of course, were not so preponderantly in favor of a merit system as state personnel directors. The majority of the party leaders responding to the survey, however, said it had improved state government and had not had a harmful effect on the parties. The personnel director in Michigan stated:

> ***We can tell you that staff members including chairmen of both the Democratic and Republican State Central Committees, have credited the merit system as actually facilitating the work of the parties, and especially of the committees. Instead of worrying about patronage placement, the party can concentrate on organization and philosophy.***[17]

[15] Roy Jorgenson and Associates, *Montana Highway Management*, (1962) pp. 26-29.
[16] *Management*, p. 142.
[17] *Ibid.*, p. 141.

[illegible] ... to be ... of ... [illegible] ... high ... [illegible]

[illegible] ... can be ... of the ... [illegible] ... the ... [illegible]

[illegible] ures should be [illegible] to prevent the extension of the governor's patronage to [illegible] employees. The governor should have the direct power to [illegible] the department heads, and perhaps should have [illegible] over the appointment of a few other key personnel to [illegible] the implementation of his policies. However, career public employees should not be [illegible] to [illegible] of political support, [illegible] as a condition of employment. A merit system [illegible] some form of protection against political discharge of career employees is highly desirable.

[illegible]

[illegible] ... adoption of a ... [illegible] ... There is ... [illegible] ... demonstrated [illegible]

[illegible] ... should be entitled to a [illegible] ... Merit System Council [illegible] ... the possibility of exposure to [illegible] ... the possibility of [illegible]

[illegible] ... and prevent widespread [illegible] ... a modified "grandfather [illegible] ... more service from [illegible] ... (2) pro- [illegible] ... the recommendation of [illegible] ... in the classified service [illegible] ... would be only tem- [illegible]

[illegible] ... granting tenure to employees who [illegible] ... be amended or repealed. The agencies affected [illegible] ... Prison, and Livestock Sanitary [illegible]

[illegible] ... presently covered by the Joint Merit System [illegible] ... Federal standards. The status of employees [illegible] ... therefore remain unchanged with no loss of [illegible]

[illegible] ... flexibility in fitting employees to particular [illegible] ... qualified for a better position that [illegible] ... a department where such an opening [illegible] ... could be utilized to a greater degree than [illegible] ... both employer and employee.

[illegible]

EFFECTS ON PRESENT STATUTES

A proposed law need not specifically repeal or amend any sections of the code giving state agencies general authority to hire, fire and set the compensation of employees. A statement of intent that the merit system covers all state employees not specifically exempted from the coverage would suffice. In other instances, however, it would be necessary to amend or repeal specific statutes which: (1) grant tenure to employees, (2) set statutory salaries of employees below the department head level, (3) vest personnel authority in the Board of Examiners, or (4) provide for examination and testing procedures.

Personnel Programs in Private Industry

During the study of a state personnel system, the views of a large corporation operating in Montana were solicited. This company employs four full-time personnel specialists, including a personnel director, for about 2,600 employees in Montana. The company also provides specialized personnel training for each supervisor, sending them to management schools an average of three times during their career with the company.

Representatives of the company stressed the need for highly trained interviewers to insure proper employee selection, as well as adequate employee performance ratings and promotion based on merit. They added that the proposed expenditure for a state personnel system of two-tenths of one percent of total payroll is "very modest." In summary, this company firmly believes that the dollar costs of a personnel program are well justified in terms of increased employee efficiency.

Estimated Cost of a Centralized Personnel System

The Joint Merit System, which covers about 741 state and county employees, has a staff of 4 persons. The supervisor of the System estimates that about 9 employees in the first year and 10 employees in the second year is the minimum staff necessary to administer a statewide personnel system. In view of the fact that the Joint Merit System now has 1 staff employee for each 185 persons covered, 1 staff employee for each 600-700 employees covered under a statewide personnel system does not seem excessive.

During its first two years the system would be faced with the complicated task of preparing classification and compensation plans for state employees, defining recruiting procedures, and modifying or preparing new examinations for positions in state government. The Council would also have to meet frequently during the first years of operation to set policy guides.

A detailed estimated budget is shown in the following table:

Item	Budget 1965-66	Budget 1966-67
1. Council members per diem, travel and subsistence	$ 2,025	$ 2,025
2. Staff salaries	56,880	62,340
3. Examination program (monitors)	1,500	2,100
4. Supplies and materials	6,000	8,000
5. Communications	2,500	3,500
6. Travel, staff	1,200	1,500
7. Office machine maintenance	500	500
8. Employee benefits (retirement, social security, etc.)	3,370	3,710
9. Membership, public personnel association	500	500
10. Capital expenditures	1,000	1,000
11. Non-recurring capital items (including $2,000 payment for equipment and supplies of present merit system)	6,000	....
12. Contingency	4,000	4,000
TOTALS	$85,475	$89,175

Detailed information obtained from several states operating personnel systems covering from 3,500 to 8,500 employees revealed that annual budgets for these agencies range from $62,000 to $328,000 and the cost per covered employee ranges from $15.24 to $74.17. The number of employees which would be covered in Montana is estimated at 6,600. The cost per employee covered would run about $12.88 as compared with a national average of $20.89.

Because a personnel office would serve all departments in a manner similar to the central purchasing division of the Department of Administration, the costs should be shared by departments operating in whole or in part on special funds in proportion to the service they receive. The Merit System could operate on a single general fund appropriation with the costs pro rated among the agencies in proportion to the number of employees covered. To avoid complicating the appropriating process, the Controller could transfer moneys from special funds to reimburse the general fund.

The amounts transferred from special to the general fund could be based upon the average cost per employee covered, the number of covered employees in the agency, and the percentage relationship of general and special funds comprising the operating budget of the agency. About sixty percent of the estimated cost would come from special funds and about forty percent from the general fund. Of the estimated $85,000 annual cost, therefore, $51,000 would be supplied from special funds and $34,000 from the general fund.

Conclusions and Recommendations

After examining the disorderly manner in which state government attempts to cope with personnel management, the Council concludes that a centralized personnel system should be initiated. A bill to implement this recommendation appears in *Appendix A*. This recommendation is intended to increase efficiency in state government in every step involving personnel management—from the time the initial interview with an applicant occurs to the legislative review of operating budgets. While some anticipated savings are intangible and thus not susceptible of being stated in dollar amounts, it is possible to measure the costs of employee turnover, which are estimated at over $800,000 per year.

There are several alternative means of establishing a state personnel system. Careful consideration of the alternatives, however, led to the conclusion that the most feasible method would be extending the scope of the present Joint Merit System. This system, which is headed by a trained personnel officer, has had twenty years of experience in recruiting, administering and grading examinations, preparing salary surveys upon which pay plans may be based, and hearing employee appeals. The Council believes that only with a qualified director, trained staff, and a governing board with some experience in personnel matters can the new law function at peak efficiency.

The Council also considered activating the Personnel Commission which has been inoperative since 1955. After an examination of that law, the Council concluded that its provisions are vague, ambiguous, and that the duties of the Commission and director are ill defined. Because amendment of this statute to make it workable would amount virtually to a complete revision, the Council decided to recommend repealing the old personnel law and enacting a new act.

To avoid conflict with federal statutes for agencies receiving federal funds and hence jeopardize important programs, the proposed law applies to agencies now covered by the Joint Merit System only insofar as the provisions are not in conflict with federal law. (See Section 6 (2) of proposed bill.)

The exceptions listed in Section 7 of the suggested law are common to most personnel systems. In most cases, the exempt persons are determined by expediency—that is, employees which it would be impractical to cover are exempted. The Council also considered

the possibility of exempting all employees of the Governor's office because of the policy implications of employment in that office. Because the Governor can dismiss employees, and because of the provision that if the employees certified by the personnel agency are not acceptable to the department head recruiting will continue until acceptable employees are found, it was felt that little, if any, restrictions were placed upon the Governor in staffing his office. At most, only two or three employees of the Governor's office would be under the merit system, and it would be an easy task for the Governor to recruit his own employees for these positions.

The recommended law also clearly defines the procedure for preparing a classification and pay plan. Although the Council concludes that initial preparation of a classification and pay plan should be the responsibility of a personnel expert, in recognition of the Governor's responsibility for budgeting, the proposed law provides that the pay plan must be submitted to the Budget Director and Governor for final approval. This procedure insures that the executive budget will be coordinated with the pay scale. The law also specifically provides that this procedure shall in no way limit the power of the legislature in appropriating funds for salaries.

Because it would be disruptive of employee morale, and hence detrimental to the state, to require that all present employees be examined for proficiency, they would, on the recommendation of the head of the agency in which they are employed, automatically be placed under the merit system without examination. Employees hired after the law became effective, however, would be required to qualify.

The cost of financing the proposed Merit System would require an annual general fund appropriation of approximately $85,000, $51,000 of which would be reimbursed from special funds. Section 19 of the proposed bill defines the procedure for determining contributions from special funds. Because of the difficulty in recruiting a specialized staff and the heavy workload during the first two years the personnel system will operate, the Council recommends that the proposed law become effective immediately. The Merit System should be provided with an appropriation of $4,000 to be used prior to July 1, 1965 so that the last four months of this biennium can be used to full advantage. The Council believes that this cost is modest compared with the benefits and ultimate savings to be realized. The state can no longer afford the luxury of chaos in an area that critically affects the daily operation of every agency of state government.

CHAPTER II

Administrative Consolidation of State Retirement Systems

The State of Montana maintains three separate agencies to administer state retirement systems. House Joint Resolution No. 17 of the 1963 legislative assembly requested that the Council conduct a comprehensive study of retirement systems for public employees to determine the feasibility and desirability of administrative consolidation which would retain the distinctive features of the various plans and the integrity of the various retirement funds.

This study was, therefore, restricted to the subject of consolidation for administrative purposes only. The possibility of changing the rates of contribution or benefits paid, and other things affecting the integrity of the various retirement funds were not considered.

Public Employees' Retirement System

Chapter 212, Laws of 1945 created the Montana Public Employees' Retirement System (PERS) to "effect economy and efficiency in the public service by providing a means whereby employees who become superannuated or otherwise incapacitated may, without hardship or prejudice, be replaced by more capable employees. . ."

The system became operative thirty years after passage of the Teachers' Retirement System, and excluded all persons covered by the latter plan. In addition, members of the Highway Patrolmen's Retirement System were excluded. With these two exceptions the system covered all state employees except elective officers and persons appointed directly by the governor who elect not to belong, and members of boards and commissions paid on a per diem basis.

In addition to state employees, the system covers employees of cities, towns, counties, school districts, and other public agencies who elect to participate under a contractual agreement with the state. Policemen and firemen, who have separate retirement systems, do not generally belong to PERS. Policemen may be covered if they do not belong to a system under the metropolitan police law, and firemen may be covered if they will accept PERS retirement provisions.

During the fiscal year ended June 30, 1963, total employees covered by the system were as follows:

State	7,833
Counties	3,669
Cities and Towns	1,695
School districts (non-teaching personnel)	1,491
Other Public Agencies	186
TOTAL	14,874

Employee contribution rates are based upon sex and age to the nearest birthday when employed. Rates are designed to provide an average annuity at age sixty-five equal to 1 140 of the final compensation of the member, according to tables adopted by the board, for each year of service rendered. The employee rate of contribution must be estimated on expected final compensation and expected life span after retirement. Present rates vary from a low of 3.0 percent of gross salary for a male beginning work at 15 years of age, to 9.0 percent of gross salary for a female beginning work at age 64. In addition, employees pay a portion of administrative costs through an annual membership fee of one dollar. Employer contributions are 3 percent of gross compensation, plus 0.3 percent for administrative expenses.

The PERS is administered by a five member board appointed by the governor. Three members must be public employees and members of the system; the other two members are "at large."

The Board has authority to make necessary rules and regulations, appoint a secretary for administrative purposes, determine qualifications for retirement, death, or disability benefits, and credit members with interest on funds invested. The retirement funds are under the exclusive control of the Board.

Routine administration is handled by a staff of twelve persons including a secretary,[1] chief accountant, senior accountant, actuary-accountant, field auditor, accountant, receptionist, payroll auditor, two posting machine operators, cashier, and claim clerk. Total administrative costs of the PERS system for the fiscal year ended June 30, 1963 were $92,571. Direct salary costs of administrative personnel were $61,300 or 66.2 percent of total cost.

The PERS accounting system annually computes 4,500 to 5,000 refunds for members who have withdrawn from the system, issues about 2,000 retirement checks per month, calculates from 12 to 15 new retirements monthly, and maintains about 16,000 active and 400 inactive accounts.

The largest single task is posting employee contributions to the accumulated savings fund account. This entails dating and sorting payroll reports, posting to the member's ledger card and determining the new balance, balancing the total on the journal to that of the employee payroll report, and finally posting the new balance to the employee ledger card. This is now being done on two posting machines. Paper tape is punched automatically as the accounts are being posted. This tape is then converted to punched cards which are used for analysis and writing yearly statements for members.

A second major task is issuing refunds for members who withdraw from the system. At termination of employment, a member may elect to withdraw his funds, or leave the funds on account to be reactivated if reemployed or withdrawn at a later date. If the funds are withdrawn and the employee later reenters state service, he may reactivate all aspects of his status by returning the amount withdrawn. All refunds are calculated from ledger cards, and checks are written manually with the refund being posted to the employee ledger card. Applications for withdrawal of funds entails auditing and calculation of the amount and drawing the check.

Applications for retirement (12 to 15 monthly) are processed manually. The highest thirty-six months salary of the employee is computed by totalling the first thirty-six months, adding the next month, and dropping the oldest. Once the actuary has calculated the payment amount, an addressograph plate is prepared and used to write the monthly check.

Mortgage and bond accounting entails a recapitulation of investments, sending this summary to servicing agencies, the return of the summary sheet and payment slips and punching of payments, preparation of a mortgage register, balancing of summary sheets, preparation

[1] The secretary actually spends a portion of his time administering PERS, and a portion administering the OASI (social security) program. One-half his salary is paid by PERS and one-half by OASI.

of new balance cards, and listing of delinquent mortgages for reconciling with the servicing agency. PERS has recently converted this accounting to a fully automated punched card procedure. Equipment installed at the Industrial Accident Board is used to handle approximately 1,500 mortgages and 4,200 bonds.

Teachers' Retirement System

The Teachers' Retirement law was enacted in 1915. The Teachers' Retirement System covers all public elementary and secondary teachers and also the teaching staffs at units of the University of Montana, teachers at state institutions, and some heads of departments in the Superintendent of Public Instruction's office. Persons covered by other retirement plans are prohibited by law from membership. During the fiscal year ended June 30, 1963, membership varied from a low of 9,285 in August, 1962 to a high of 10,615 in January, 1963. Fluctuations are due primarily to new teachers entering the system and some teachers leaving the state who elect to withdraw their contributions.

The Teachers' Retirement System is financed through a contribution of 5 percent of gross compensation by members up to a maximum annual salary of $7,000. Like PERS, members of the Teachers' Retirement System contribute toward administrative costs through an annual membership fee of one dollar.

The employee contribution is supplemented by an employer contribution of 3.75 percent of gross salary plus 0.25 percent for administration. As the law now reads, the employer contribution will be reduced to 3.50 percent for payrolls after July 1, 1965. In the case of public school teachers, the employer contribution is made by the local school district. The state, through regular appropriations, provides employer contributions for members employed directly by the state, such as faculty at units of the University.

The Teachers' Retirement system is administered by a five member board—four members appointed by the governor and the Superintendent of Public Instruction. Appointive members include two from the teaching profession, and two public members.

Like the PERS Board, the Teachers' Board has authority to make necessary rules and regulations, employ a secretary for administration, determine amounts payable to members upon retirement, and manage the retirement fund. Funds are invested by the Board.

Regular employees of the System include an executive secretary, accountant, secretary, payroll clerk, record clerk, and posting clerk. Total administrative costs during the fiscal year ended June 30, 1963 amounted to about $47,500. Of this total, direct salaries for administration amounted to $30,300 or 64 percent.

In the Teachers' Retirement System, approximately 1,400 refunds are calculated each year, about 1,300 retirement checks are issued monthly, some 9,000 active and 1,300 inactive accounts are maintained, and about 120 to 125 new retirements are calculated each year. Because teachers normally retire at the end of a school term, most retirements (about half) are calculated in July.

The largest single accounting task is posting checks which are submitted from the 860 school districts. Approximately 4,000 checks are received monthly during the school term for employer and employee contributions. A posting machine is used to post each teacher's payment to his ledger card. The contributions from school districts are posted on another set of ledger cards. The posting machine reads the old balance from the ledger card, and calculates the new ledger balance automatically. Totals from each posting are balanced against the voucher which accompanies the checks to the State Treasurer's office.

Payroll deductions are usually constant for any given month as contrasted with the fluctuating deductions of PERS. Each individual deduction must be posted as a separate entry from the detailed report which the school district submits, however, which is similar to the posting of PERS. Ledger cards are filed alphabetically by county and a cross reference file is maintained.

Refunds are calculated and typed manually from the balance on hand excluding interest paid. Interest is determined yearly and posted to each member's ledger card.

Retirement payments are calculated at the time a teacher applies for retirement. Average salary is determined from the ledger card and, together with other pertinent information, is supplied to the actuary. After the amount of payment has been determined, a punched card is prepared and used with a name and address card to write monthly payment checks. Machine equipment installed in the Fish and Game Department is used for this purpose.

About 1,200 mortgages must also be handled through the accounting system. Transactions are posted to ledger cards as they are reported monthly by servicing agencies. Accounting for bonds is done in much the same manner.

Highway Patrolmen's Retirement System

The Highway Patrolmen's Retirement System was created by Chapter 37, Laws of 1945—the same year that PERS was established. The purpose of separate coverage for highway patrolmen is in recognition of the unique nature of their positions. Because of the physical requirements of the job, law enforcement officers normally retire at an earlier age than other employees. Highway patrolmen may elect to retire after twenty years of service on a reduced allowance, or on full retirement allowance after twenty-five years of service. The system covers about 123 Highway Patrol employees.

The justification for creating a separate administrative structure is obscure. When the legislature created the Game Wardens' system in 1963, administration was vested in the PERS Board. Why a similar procedure was not followed in the case of highway patrolmen is not known.

Highway patrolmen contribute 5 percent of gross salary to the system; but after twenty-five years of service, contributions cease and no further retirement credits are earned. The State of Montana supplements the employee contribution by appropriation of 15 percent of all money received from motor vehicle driver license fees. During the fiscal year ended June 30, 1963, the state contribution amounted to $83,000, or about $675 per employee.

The system is administered by a Board consisting of the chairman of the Montana Highway Patrol Board, the supervisor of the Highway Patrol, and three members of the Highway Patrolmen's Association. The Board, like the boards of PERS and Teachers' Retirement System, is responsible for determining amounts payable to members upon retirement, general management of the system, and investment of funds. Funds are deposited with the State Treasurer. When the fund exceeds $25,000, the money is transferred to the Board of Land Commissioners for investment upon direction of the Highway Patrolmen's Retirement Board.

Administration of the system, due to its limited coverage, is uncomplicated. No full time personnel are employed, and routine administration is handled by regular employees of the Highway Patrol. In 1962 the Board met twice resulting in an expense of $146 in salary costs. A total of $8 was expended for accounting, and bookkeeping expenses added $30 to the costs. Total administrative costs for that year amounted to $184.

One person spends approximately one week's time during the year on accounting. The same basic information utilized in accounting for the PERS and the Teachers' system is employed, and the same records are maintained.

The operation is completely manual with a page in a ledger book established for each member.

State Game Wardens' Retirement System

Chapter 130, Laws of 1963, created the State Game Wardens' Retirement System. Coverage is restricted to state fish and game wardens and supervisory personnel whose salary is paid from Montana fish and game funds. Membership is now 61.

The rate of contribution for employees is 7 percent of gross compensation. This amount is matched by a 7 percent employer contribution. Administrative expenses are appropriated from fish and game moneys. Like the Patrolmen's System, contributions are higher than those of PERS and the Teachers System to allow for full retirement with 25 years service at 55 years of age providing one-half of "final compensation." Retirement at age 60 is mandatory.

The administrative board for the Game Wardens' Retirement System is the same board charged with administration of PERS. The Board has similar responsibilities to those of other governing boards. Investment of funds is authorized by the Board. Funds in excess of $25,000 are approved by the State Board of Land Commissioners for long term investment, and funds of less than $25,000 are invested by the Board for short terms.

Accounting for the Game Wardens' Retirement System is handled under the same procedures used for the PERS. The only difference lies in the actual calculations made on the payments from employees and employers.

Old Age and Survivors Insurance (OASI)

Coverage under OASI—commonly known as social security—was authorized in 1953 for all employees of state government except highway patrolmen. Due to statutory exclusion and provision for earlier retirement, highway patrolmen do not qualify for OASI coverage. During the fiscal year ended June 30, 1963, the system covered 29,134 employees of state and local governments.

This program is quite different from the PERS program in several respects. The Social Security Division does not have responsibility for determining contribution rates for employers and employees, makes no determination of benefits to be paid, has no control of funds (contributions are collected and forwarded to Baltimore, Maryland), and is bound by federal regulations and the 1953 agreement whereby social security coverage was extended to state employees. The Social Security Division is essentially a collection agency and records depository.

Employees contribute 3 5/8 percent of gross salary to the benefit fund, and a similar percent is contributed by the employer. In addition three-tenths of one percent is contributed by the employer for administrative expenses.

The OASI system is administered by PERS in Montana. Regular employees include an executive secretary[2], accountant, field auditor,[3] and stenographer. Administrative costs for the fiscal year ended June 30, 1963 were about $30,000. Salary costs of administration were $21,300 or 71 percent of the total.

Accounting procedures for the OASI division are quite different from those of the four retirement systems. Essentially, the accounting is for collection purposes only with money being forwarded to Baltimore, Maryland. Some of this work is being done on the data processing equipment in the Fish and Game Department.

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[2] The executive secretary actually spends a portion of his time administering PERS, and a portion administering the OASI program. One-half of his salary is paid by PERS and one-half by OASI.

[3] PERS attempts to coordinate the activities of a field auditor so that he functions for both PERS and OASI.

Comparison of State Retirement Systems

In its report *The Organization and Administration of State Government,* the Legislative Council formulated and adopted certain generally accepted standards as guides to reorganization, using management techniques developed in both private business and government. The Council considered a number of organizational principles as fundamental. Two major principles, directly relating to a study of administrative consolidation of Montana retirement systems, are:

1. A basic plan of organization should be as simple as possible, and the number of separate organizational units should be held to a minimum.
2. Related activities should be grouped together for most effective administration and minimum overhead cost.[4]

The Council did not, however, endorse change for change's sake. Economy is often cited as a goal of reorganization. And, in cases where gross duplication exists, tangible and immediate economy can be demonstrated. In many areas, however, an immediate reduction in expenditures cannot be expected. The goal should be to obtain a greater value for each tax dollar spent.[5]

An even greater reward of reorganization is making government more responsive and responsible to the desires of the people. If compatible functions are grouped into a few integrated departments with clear lines of authority, there is a better possibility that government will respond promptly and its activities will conform more closely to the desires of the people.[6]

GOVERNING BOARDS

Having been established for the same basic purpose, it is not surprising that the operation of the governing Boards of the three separate Montana retirement systems are very similar.

The Teachers and PERS Boards meet periodically to determine policy and are authorized to employ any necessary administrative personnel and fix their salaries. There is no similar provision for the Patrolmen's Board—administration being handled by regular employees of the Patrol.

All Boards are required to have "periodic" actuarial investigations. Based upon this information, each Board is required to adopt the necessary mortality tables. The same person acts as consulting actuary for all retirement Boards.

A final determination of retirement benefits is made by each of the Boards. Each Board also determines whether disability allowances should be paid, and the amounts of each. Although the exact procedure may vary, the responsibility for determination of benefits is similar.

All Boards are charged with the responsibility for investment of retirement funds. In each case, the actual investment is made by the Board of Land Commissioners as directed by the several Boards. Although approval by the Land Commissioners is required, Board recommendations are invariably followed.

On July 1, 1963 the PERS Board assumed responsibility for administration of the Game Warden's Retirement System. The statute creating this system was modeled after the Highway Patrolmen's Retirement System. Due to the similarities of the statutes and the fact that

[4] Montana Legislative Council, *The Organization and Administration of State Government,* (1960) pp. 7-8.
[5] Montana Legislative Council, *Executive Reorganization,* (1962), p. 3.
[6] *Ibid.*

administration of the Game Warden's system was placed under the PERS Board, it is assumed that the PERS Board could administer the Patrolmen's system without great difficulty. Major attention has, therefore, been directed toward consideration of administrative consolidation of the Public Employees' and Teachers' systems.

PERS AND TEACHERS' RETIREMENT SYSTEM PROCEDURES

The major responsibilities of both the PERS and Teachers' Boards are to insure that adequate benefits are paid to members of the systems and that the systems are financially sound. To attain these objectives, the Boards must invest the money in the retirement funds to the best advantage possible and also determine the benefits which will be paid to members.

Benefit tables for both systems are based upon information compiled by the actuary. Based upon data in the files, the actuary determines the benefits which can be paid and submits them to the Board for final approval and adoption. In the case of PERS, the actuary must also determine the necessary contribution rates.

Investments by both systems are based upon the recommendations of an investments committee. The PERS committee is composed of three Board members, the executive secretary, and the actuary. The Teachers' committee is composed of the Superintendent of Public Instruction, executive secretary, and actuary. The committees examine offering sheets circulated by brokerage houses and other financial information. The PERS committee submits recommendations to the Board for final approval, and the Land Commissioners are then requested to approve the investments. The Teachers' committee does not request Board approval, but rather reports their action to the Board. Endorsement of the investments is then requested from the Land Commissioners.

DUTIES OF THE CHIEF ADMINISTRATOR OF PERS AND TEACHERS' SYSTEMS

A comparison of the duties of the chief administrator in each of the two major retirement systems reveals a remarkable similarity. The following duties are alike:

A. Daily duties

1. Supervision of personnel
2. Daily correspondence
3. Approval of vouchers and countersigning
4. Incoming telephone calls and conference with visitors
5. Resolution of problems concerning the retirement law or board regulations

B. Occasionally, or as necessary

1. Employment of personnel
2. Preparation of agendas for meetings of the board
3. Recording of minutes of board meetings
4. Informational meetings with members as necessary
5. Collection and preparation of data required for investment funds
6. Lobbying of retirement legislation during legislative sessions
7. Recommendations of benefit payments
8. Appearance before legislative committes when required
9. Meetings with government officials when required
10. Preparation of investment data for State Land Commissioners
11. Preparation of any necessary revision of system forms as required
12. Inspection of residential property on which mortgages are held
13. Representation of the board at any functions necessary
14. Meetings with public or service groups as representative of the system
15. Preparation of necessary reports

Because of the attachment of social security to the PERS system, the chief administrator of PERS performs similar functions for that Division. This results in a slight difference in work load, but no difference in the nature of the supervisory duties performed.

ACCOUNTING PROCEDURES OF THE SYSTEMS

The accounting procedure for each of the state retirement systems consists of three fundamental phases—collecting and recording contributions from all sources, calculation of refunds or retirement benefits and making the appropriate payments, and investing funds for the maximum benefit possible to members of the systems.

Each system is concerned with posting to individual member records from the monthly reports submitted by employers. All are concerned with combining certain like factors into a formula to determine an amount which will then become a fixed payment over a number of years. The major difference in the member reporting operations of the two major systems lies in the fact that both the employers and employees are paying contributions which vary more in PERS than in the Teachers' Retirement System.

A survey of accounting procedures of PERS and Teachers' Retirement System was conducted in 1963. The survey concluded:

> ***There appears to be no reason why all of the peripheral areas, such as mortgage accounting, bond accounting, refund check preparation, benefit check preparation, and retirement fund accounting could not operate under the same accounting system. PERS has, or had plans for fully automating all of these areas on punched card accounting equipment. There appears to be a great deal to be gained by moving in this direction.***
>
> ***There are two distinct possibilities in the way of combining PERS with Teachers':***
>
> ***1. Place all present personnel and equipment under one administrative head without changing clerical duties and responsibilities.***
>
> ***2. Place both units under one administration, but plan to fully automate both accounting departments on the same punched card accounting machines.***
>
> ***The first method would show a savings through a reduction in the number of administrative personnel necessary. It would also very likely make possible a reduction of clerical personnel through an overlapping of jobs. PERS now employs fifteen people; Teachers' six. Personnel could probably be used more efficiently and still have jobs similar to what they are presently doing. All three machines would have to be kept because of the difference between those of PERS and the one at Teachers'.***
>
> ***The second method would enable both systems to be under the same accounting framework. All of the present accounting work can be effectively converted to punched card accounting. There should be considerable cost savings because essentially the same equipment could be used that would be used in either of the systems as they are presently organized. It would probably be necessary to increase the speed on the accounting machine and to possibly add a card punch. The administration could expect to gain a much more powerful and complete system. As a result, a great deal more information would be available to management while, at the same time, a cost savings should be realized through a significant reduction in man hours. . .***[7]

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[7] Correspondence, Mr. J. B. Preston to Mr. E. C. Tidball, July 17, 1963.

Conclusions and Recommendations

The retirement systems of Montana have no marked differences from an administrative point of view; in fact, they are remarkably similar. There is no essential difference in the record keeping and accounting methods. The program for each system consists of three fundamental phases—collecting and recording contributions, calculating refunds or retirements to make appropriate payments, and investing the assets of the systems.

If the separate administrative systems did not exist and the state were considering the establishment of three systems, there certainly would be no valid reasons for creating three administrative agencies. The retirement system for game wardens, which was created in 1963, is being administered effectively by PERS.

A number of states do have separate retirement systems under a consolidated administrative agency. In some cases a single retirement system was originally set up. In others, however, separate systems were initially created and later consolidated. Some fourteen states have provided a single administrative agency for two or more retirement systems. In some states complete administrative consolidation exists, in others administrative consolidation is partial. If administrative consolidation has proved successful in other states, there is no reason to believe it would not work also in Montana.

Administrative consolidation of the three existing systems is feasible, and would conform to accepted practices of management (both in government and industry) by grouping compatible functions together; it would improve executive control and it would probably result in better services to the clients of the retirement systems. No doubt some monetary savings in administrative expenses would be achieved.

A reasonably accurate estimate of the monetary savings resulting from consolidation would be difficult to determine without a detailed and time-consuming management survey. In addition, the actual savings realized would be dependent in part upon the ability and imagination of the administrator of the combined systems.

A single governing board for the consolidated administration need not result in any loss of representation by the various member groups. In fact, the single board might well provide a broader view of all the systems. This broader base of knowledge upon which decisions would be based should enhance the possibility of equity to all members of state retirement systems.

None of the administrators of the three systems were able to present any convincing arguments against consolidation. It was argued that administrative consolidation would result in only negligible monetary savings; however, this in itself, is not a valid argument against administrative consolidation.

Apparently there would be a good deal of resistance to administrative consolidation—particularly from members of the Teachers' and Highway Patrolmen's systems. Administrators are traditionally opposed to administrative consolidation of any sort. In the case of these retirement systems, many members might reflect the attitude of the administrators, thus compounding the intensity of the opposition. However, much of this resistance would be based upon lack of understanding of the aims and effect of administrative consolidation. As mentioned earlier in this report, the study was not undertaken with the intent of proposing any changes in the retirement programs of public employees; contributions to the systems and benefits from the systems would not be altered. The study was limited to the feasibility of combining the day-to-day administration of the separate programs under one agency.

Because of the probability of widespread misunderstanding of the goals of administrative consolidation, and of the difficulty of conclusively proving substantial financial savings or improved service, the Council does not recommend any action at this time. Changing conditions, however, might well bring about more persuasive reasons or a more receptive attitude than now exists. Examples of such conditions are increases in the number of members of the systems, advances in electronic data processing, and the inauguration of a program of total reorganization of the executive branch of government.

CHAPTER III

Local Retirement Systems For Policemen and Firemen

In compliance with House Joint Resolution No. 17 of the 1963 Legislature, major efforts were directed toward determining the feasibility of administratively combining all state retirement systems. The Council, however, also reviewed local retirement systems for policemen and firemen. During this review, the Council became concerned about the financial condition of these funds.

Because the employer contributions for these systems are derived from a local property tax, the condition of the funds has a direct bearing on local property taxes. Moreover, if the funds are not actuarily sound at the present time. the municipalities may be incurring a steadily increasing financial obligation. In the future the municipalities might be faced with the equally unpleasant alternatives of large increases in local property taxes, or reductions in benefits paid.

Policemen's Retirement Systems

Some sixteen municipalities in the State of Montana maintain retirement systems for policemen. Cities of the first and second class (population in excess of 5,000) maintain retirement systems for policemen under the metropolitan police law. Other cities may come within the provisions of this statute by ordinance.

The employer contribution for policemen's retirement funds is financed through a mill levy on property which cannot exceed three mills, and an employee contribution of three percent of monthly compensation. Policemen may be retired for disability at any time, or they may retire after twenty years of service. In either case annual retirement benefits are one-half the salary received during the year prior to retirement.

Firemen's Retirement Systems

All 108 incorporated cities and towns in the state must maintain a fire department which may have a relief association. All associations are required to maintain a disability and pension fund, but only about 30 cities or towns have retirement systems. Cities and towns having relief associations may establish a retirement system, or they can purchase group health and accident insurance for firemen.

Contributions to firemen's retirement systems are from three sources: (1) an employer contribution financed through a mill levy on property; (2) an employee contribution of three percent of monthly compensation, and (3) an amount equal to taxes on the fire portion of premium taxes on numerous types of insurance covering property in the city or town, which is distributed annually by the state auditor.[1] If the retirement fund drops below one percent of the taxable valuation of property in the city, a levy of up to two mills must be made to maintain the fund at one percent of the valuation. In third class cities, a levy of up to two mills may be made if the fund drops below two percent of the taxable valuation of the city. Firemen may be retired for disability, or after twenty years of service if they are fifty years of age. Monthly retirement benefits are one-half the compensation received during the final month of service, but this amount may be reduced if funds are not sufficient.[2]

[1] For enumeration of types of insurance, see Sec. 11-1919, R.C.M. 1947. The minimum payment is $100.

[2] After July 1, 1963, firemen who have served twenty years may serve up to ten more years and the pension is increased one percent for each additional year of service to a maximum of sixty percent of final monthly compensation.

Problems

One major problem of the local retirement systems is inherent in the systems themselves. Contributions and benefits of retirement systems are computed on averages. In systems of small membership, however, averages have limited application. Unusual circumstances, such as the disability of several members, can place an almost unbearable burden on a small retirement fund.

A second major problem appears to be the provisions for contributions to the systems. In each case, the employee contribution is fixed at three percent of monthly compensation. In the two state systems which allow early retirement, highway patrolmen and game wardens, the employee contribution is fixed at five and seven percent of monthly compensation respectively.

The employer contribution is based on property valuation and is not related directly to salary or benefits. Local officials may have a tendency to hold the budgeted amounts for these funds at a low level in their zeal to relieve the current tax burden on property. However, in so doing they are leaving to their successors a legacy of unfunded past liabilities that some day may have to be met by drastic and sudden tax increases. Although there is a requirement that the firemen's retirement fund be maintained at one percent of the taxable valuation of property in the city or town, this contribution measure has a less direct relationship to the need for funds than would a contribution based directly on salary and other actuarial factors.

A third major problem is in part a result of those listed above. Due to the small memberships of the systems and provisions for contributions, some of the funds never become large enough to realize substantial interest earnings. In fact, some are so small there is little possibility of investment. Yet, most retirement systems consider interest earnings as an important source of revenue.

After surveying the condition of local retirement funds, it is apparent that some funds are not financially sound. For example, on July 1, 1963 one fund had a balance of $750 and an average monthly disbursement of $1,244. Obviously retirement benefits were being paid almost entirely out of current income. It is also apparent that this city may soon face the unpleasant decision of increasing taxes for the fund or reducing benefits.

Conclusions and Recommendations

After examining the local retirement systems, the Council concludes that additional information is needed before sound recommendations can be made. Any adjustments in the systems must be equitable to both the local taxpayers and members of the systems. The Council also concludes that the additional information necessary could be obtained from an actuarial examination of the local retirement funds together with recommendations for improvements. The longer this examination is delayed, the larger the financial obligations of the municipalities may become.

As a first step toward solving some of the problems which appear to exist in local retirement systems for policemen and firemen, the Council recommends that the 1965 legislature appropriate money for an actuarial examination of all such funds in the state. Based upon a preliminary estimate, such a survey would cost less than $2,000. Only after this basic information is available can reasonable adjustments be made to improve these systems. A resolution implementing this recommendation appears in Appendix B.

APPENDIXES

APPENDIX A

______ Bill No. ______

Introduced by ____________________

A BILL FOR AN ACT ENTITLED: "AN ACT ESTABLISHING A STATE MERIT SYSTEM PROVIDING FOR THE RECRUITING, EXAMINATION, CLASSIFICATION, COMPENSATION, AND DISMISSAL OF STATE EMPLOYEES: APPROPRIATING MONEYS FOR THE OPERATION OF THE STATE MERIT SYSTEM; AMENDING SECTIONS 3-105, 26-106, 26-107, 27-404, 31-105, 46-208, 53-101, 81-203 AND 84-705, R. C. M. 1947; AND REPEALING SECTIONS 4-108, 25-504, 26-108, 26-116, 59-901, 59-902, 59-1201 THROUGH 59-1215, 80-707.2 THROUGH 80-707.5, 82-109.4, AND 82-1907, R. C. M. 1947."

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF THE STATE OF MONTANA:

Section 1. It is the general purpose of this act and the public policy of the state that

(1) Appointments and promotions of state employees shall be based on merit and fitness, to be ascertained by competitive examinations wherever possible.

(2) Efficiency and economy shall be promoted through just and equitable incentives and conditions of employment.

(3) Conditions of employment shall be established in state government which will attract employees of character and ability.

(4) Uniformity in compensation of state employees for similar work shall be based on uniform classification of state employees.

(5) The merit system established by this act shall assist all state agencies in formulating sound principles of personnel management, and shall give the agencies maximum latitude in implementing such principles.

Section 2. (1) The joint merit system established in 1940 by certain state agencies responsible for administering federal grant-in-aid programs is hereby perpetuated and continued as the "State Merit System" and as such constitutes a permanent agency of state government, and is responsible for administering this act.

(2) The merit system shall continue its present programs for grant-in-aid agencies, which shall continue to operate under existing regulations until the plans established under this act are determined to be in conformance with federal requirements. When the plans established under this act are determined to be in conformance with federal requirements, all records, property and moneys of the joint merit system shall be transferred to the state merit system.

Section 3. The merit system council consists of three members appointed by the governor, with the consent of the senate, for overlapping six-year terms on the basis of their known impartiality and sympathy with merit principles. Members of the merit system council now holding office shall continue until the expiration of their terms. An appointment to replace a member whose term has expired shall be for six years. An appointment to replace a member whose term has not expired shall be for the remainder of the term. During his term and for one year preceding his appointment a council member shall not hold or have held a political office or a position as an officer or employee of a political organization.

Section 4. The council shall elect a chairman from among its members. Two members constitute a quorum for the transaction of business. Members of the council shall receive twenty five ($25.00) dollars per day plus actual and necessary expenses incurred in attending meetings or in other council business.

Section 5. The chief administrative and executive officer of the merit system is the director who shall have training and experience in a field related to merit system administration. The director and all other persons employed in the merit system office shall be in the classified service. During his term as director and for three years prior to his appointment he may not hold or have held a political office, nor have been an employee or officer in a political organization. The present supervisor of the merit system shall continue in office as director until removed under the provisions of this act. A person appointed to fill the position of director shall be appointed by the council from a list established after open competitive examination as provided for in this act. The director shall receive a salary of not less than twelve thousand dollars ($12,000) annually.

Section 6. (1) Except as provided in subsection 2 of this section, or unless expressly excepted by Section 7 of this act, this act applies to all positions in state agencies which are or may be established.

(2) This act applies to all state agencies responsible for administering federal grant-in-aid programs only insofar as the provisions of this act are not in conflict with the requirements of the federal government. Agencies administering federal grant-in-aid programs may establish by regulation additional standards to conform with federal requirements. Such regulations are subject to approval by the merit system council.

Section 7. The classified service to which this act applies comprises all positions in all state agencies and institutions except:

(1) Officers and employees of the legislative branch.

(2) State officers elected by popular vote and persons appointed to fill vacancies in such elective offices.

(3) Members of boards and commissions appointed by the governor or legislature.

(4) Except as provided in section 5 of this act, the agency head, one principal assistant or deputy, and one private secretary for each state agency.

(5) Judges and other officers or employees of the judicial branch.

(6) Attorneys admitted to practice before the Supreme Court of Montana, and serving as legal counsel.

(7) Research and teaching personnel, officers, and student employees of a unit of the university of Montana.

(8) Members of the teaching staff, and patients or inmates employed in state institutions.

(9) Persons employed in a professional or scientific capacity to make or conduct a temporary and special inquiry, investigation or examination on behalf of the governor, the legislature, or a legislative committee.

(10) Officers and members of the militia.

(11) Janitors, custodians, unskilled laborers, truck drivers and other construction and maintenance equipment operators.

Section 8. After consultation with the heads of all agencies involved, the director shall prepare a classification plan for all positions in the classified service, grouping together under common titles those positions having approximately the same duties and responsibilities

and the same requirements of training and experience. The specifications for each class of position shall include a title, a description of duties and responsibilities, the minimum requirements of education and experience, and other qualifications. Upon completion the plan shall be submitted to the council for consideration, revision and adoption. Upon adoption by the council it shall become effective. The plan will be kept up to date by making required changes to reflect the current needs of state government.

Section 9. (1) The director shall prepare a compensation plan providing for initial, intervening and maximum rates of pay for all classified positions. In setting up the plan the director shall consider the amount of moneys available, the prevailing rates of pay in government and private employment in the locality of the agency or institution, the cost of living, the level of each class of position in the classification plan, and other relevant factors. The compensation plan shall be submitted to the council for consideration, revision and adoption. Upon adoption by the council it shall be submitted to the governor through the budget director for consideration, revision and adoption. Upon adoption by the governor it shall become effective. Amendments shall be made in the same manner. The compensation plan shall in no way limit the authority of the legislative assembly relative to appropriations for salary and wage expenditures.

(2) The council shall submit a preliminary compensation plan to the governor no later than June 1, 1966. The governor shall include in his proposed budget for the 1967-69 biennium, appropriations requests sufficient to finance the preliminary pay plan as approved by him. The council shall submit a final pay plan to the governor based on the appropriations for the 1967-69 biennium no later than May 1, 1967. The governor shall approve a pay plan no later than June 1, 1967. The plan shall become effective July 1, 1967.

Once the compensation plan is effective all salary and wage payments made to a state employee in the classified service shall be in accordance with the plan.

Section 10. Except as provided in Section 18 of this act, the permanent appointment of all personnel to positions in the classified service shall be based on open, competitive merit examinations. Applicants shall meet minimum requirements as set out in the classification plan before taking an examination. Employment lists will be established in order of final score, and certification for vacancies shall limit selection to not less than the three top ranking eligible candidates. The council shall implement this section no later than July 1, 1967.

Section 11. The director shall submit proposed regulations to the council for adoption within six months after the effective date of this act. The regulations shall provide

(1) For the preparation, maintenance and revision of a position classification plan for all positions in the classified service.

(2) For the development and administration of a compensation plan for all positions in the classified service which shall be based upon the classification plan and shall adhere to the general principle of like compensation for like work.

(3) For the use of sound employee recruitment and selection methods, including examinations to test the relative fitness of applicants for positions in the classified service.

(4) For promotion from within the service when there are well qualified candidates available.

(5) For a period of probation not to exceed one year before appointment or promotion may be made permanent

(6) For limited term appointments without examination, none of which shall exceed six months.

(7) For a system of performance ratings of employees.

(8) For transfers from one agency to another.

(9) For an order of lay-offs because of lack of moneys or work, abolition of a position, or material change in duties or organization. The order of lay-offs shall be based on both performance and seniority.

(10) For establishment of a procedure for the review of disputed personnel actions, and for resolving grievances and complaints.

(11) For other regulations not inconsistent with this act, which may be necessary for its effective implementation.

Section 12. In addition to duties enumerated elsewhere in this act it is also the responsibility of the merit system council to:

(1) Advise the director with respect to policies and procedures of the merit system.

(2) Promote public interest and confidence in merit system principles and operations.

(3) Make biennial reports to the governor and legislative assembly and recommend improvements in the merit system.

Section 13. In addition to duties enumerated elsewhere in this act it is also the responsibility of the director to:

(1) Attend all meetings of the council and act as its secretary and keep minutes of all meetings.

(2) Appoint and fix the compensation, in accordance with merit system rules, of such employees of the merit system as may be necessary to carry out the provisions of this act.

(3) Establish and maintain a record of the employment history and other appropriate information relating to all employees in the classified service.

(4) Authorize such expenditures as are necessary in the discharge of his duties and powers.

Section 14. (1) The head of an agency may dismiss an employee in the classified service after the employee has been notified of the reasons for dismissal in writing. From the effective date of this act until June 30, 1967, an employee in the classified service who has been dismissed may appeal to the council. After July 1, 1967, an employee in the classified service who has been reclassified, demoted, suspended, dismissed, retired or separated may appeal to the council. Such appeals must be made within thirty days after the effective date of the action upon which the appeal is based. The appeal shall be in writing and a formal hearing before the council shall be arranged by the director within thirty (30) days after he receives the appeal. The head of the agency shall be furnished a copy of the appeal in advance of the hearing. The employee, his immediate supervisor, and the head of the agency shall be notified in advance of the hearing and have the right to bring witnesses, present evidence, and have legal counsel. Either the head of the agency or the employee's immediate supervisor shall attend the hearing.

(2) The council shall notify the head of the agency and the appellant in writing of its recommendation within three days after the hearing. Within three days of receiving such notice the agency head shall make the final decision and submit a copy of that decision to the council and the appellant.

Section 15. No person shall require any assessment, subscription, contribution, or service for any political party from an employee in the classified service as a condition for employment.

Section 16. No action affecting the employment status of any employee in the classified service or applicant for a position in the classified service including appointment, promotion, demotion, suspension or removal shall be taken or withheld for reasons of race, politics, religion or national origin.

Section 17. All personnel records of agencies employing persons in the classified service shall be open to the inspection of the director and the council. The director shall periodically review the payrolls of agencies employing persons in the classified service. If the director determines that an employee in the classified service is receiving compensation in a manner not consistent with the classification plan or compensation plan he shall notify the disbursing officer who shall withhold payment until the payroll is adjusted to conform with the provisions of this act and regulations adopted under it.

Section 18. (1) An employee holding a position in the classified service for six months or more immediately prior to the effective date of this act, shall, upon the recommendation of the head of the agency in which he is employed, be continued in his position in the classified service without examination.

(2) An employee holding a position in the classified service for less than six months immediately prior to the effective date of this act, may, upon the recommendation of the head of the agency in which he is employed, be continued in his position and have provisional status in the classified service until an examination for the position he occupies is offered. He shall then be admitted to the examination without regard to minimum qualifications of education and experience, and if he passes the examination he may be continued in his position in the classified service. If he does not pass the examination he shall be dismissed from his position within thirty (30) days after a list of eligibles has been established for the position.

(3) Employees holding permanent positions in separate merit systems existing on the effective date of this act in the Unemployment Compensation Commission, State Board of Health, Department of Mental Hygiene, Department of Public Welfare, and State Civil Defense Agency, shall continue in their present status without further qualifying under this act.

(4) Not later than sixty days after the effective date of this act, the head of every agency shall submit a list of the employees in each of the above categories, together with his recommendations, to the merit system director.

(5) The salary of an employee holding a position in the classified service for six months or more immediately prior to the effective date of this act shall not be reduced as a result of the adoption of the classification plan or the compensation plan.

Section 19. (1) The director shall compute the cost per employee by dividing the number of classified employees into the total amount of money spent by the merit system during the preceding fiscal year. Before September 1, 1966 and before September 1 of each successive year the director shall notify the state controller of the amount to be charged to each agency or institution based on the cost per employee multiplied by the number of classified employees in the agency or institution.

(2) Before October 1, 1966 and before October 1 of each successive year, the controller shall transfer to the general fund from each non-general fund appropriation available for the payment of operating expenses, an amount equal to the charge computed by the director multiplied by the percentage such non-general fund appropriation is of the total appropriations available to the agency or institution for the payment of operating expenses.

Section 20. There is appropriated from the general fund to the state merit system four thousand dollars ($4,000) for the biennium ending June 30, 1965. There is appropriated from the general fund to the state merit system one hundred seventy-four thousand six hundred and fifty dollars ($174,650) for the biennium ending June 30, 1967.

[Sections 21 through 30 of this bill are only amendments and repeals of existing statutes to bring the code into conformity with the basic legislation. Consequently, they are not reproduced in this report. The code sections affected are listed in the title.]

Section 31. It is the intent of the legislative assembly that

(1) The merit system established by this act extend to all employees of all state agencies and institutions except those expressly excluded or exempted in this act, and

(2) Specific statutes authorizing state agencies and institutions to hire, remove and set the compensation of employees shall not be interpreted as excluding or exempting such agencies, institutions and employees from the provisions of this act.

Section 32. It is the intent of the legislative assembly that if a part of this act is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of this act is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

Section 33. This act is effective on its passage and approval.

APPENDIX B

________ Joint Resolution No. ________

Introduced By ______________________

A JOINT RESOLUTION OF THE HOUSE OF REPRESENTATIVES AND THE SENATE OF THE STATE OF MONTANA REQUESTING THAT THE LEGISLATIVE COUNCIL CONDUCT A COMPREHENSIVE STUDY OF RETIREMENT SYSTEMS FOR POLICEMEN AND FIREMEN IN THE STATE, AND SUBMIT A WRITTEN REPORT OF THEIR FINDINGS TOGETHER WITH ANY NECESSARY RECOMMENDATIONS AND IMPLEMENTING LEGISLATION TO THE FORTIETH LEGISLATIVE ASSEMBLY.

WHEREAS, sound retirement systems are of primary importance to a municipality seeking to attract competent, well qualified policemen and firemen, and

WHEREAS, local retirement systems for policemen and firemen are financed in part by a local property tax, and

WHEREAS, the financial condition of these funds thus has a direct bearing on local property taxes, and

WHEREAS, if these funds are not actuarially sound at the present time, the municipalities may be incurring a steadily increasing financial obligation, and

WHEREAS, in the future the municipalities may be faced with the equally unpleasant alternatives of large increases in local property taxes or reductions in benefits paid, and

WHEREAS, a sudden and drastic increase in taxes upon property in the future to finance an unfunded liability being incurred at the present time would disrupt the financial structure of municipalities of the state, and

WHEREAS, it would be inequitable to reduce the benefits paid to retired policemen and firemen, or their surviving dependents, if retirement funds were not sufficient, and

WHEREAS, a major problem of these systems appears to be the small membership because contributions and benefits of retirement systems are usually computed on averages, but in very small systems averages have limited application, and

WHEREAS, as a result of the present provision for financing these systems, some of the funds never become large enough to realize substantial interest earnings although this is an important source of revenue to most retirement systems, and

WHEREAS, a preliminary survey of these systems conducted by the Legislative Council during the 1963-65 biennium in conjunction with a study of state retirement systems raises doubt regarding the financial condition of some of the funds, and

WHEREAS, any adjustments in the systems must be equitable to the local taxpayers and members of the systems alike, and

WHEREAS, reasonable recommendations to improve the systems can be made only after an actuarial examination of the local funds has been completed.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That the Legislative Council conduct a comprehensive study of retirement systems for policemen and firemen in the state, retaining any consultants necessary, and submit a written report of their findings together with any necessary recommendations and implementing legislation to the Fortieth Legislative Assembly.

BE IT FURTHER RESOLVED, that this study should include, but not be limited to, the present financial and actuarial status of the systems, investment procedures, rate of employer and employee contribution, and administrative structure including the feasibility and desirability of an agency of state government administering and investing the funds.